

California faces future risk with carbon gold rush

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Body

WASHINGTON - California is putting its reputation as a pioneering environmental heavyweight on the line as it prepares to launch a carbon market in eight months' time.

State regulators are battling the clock, the courts and their own empty pockets as they prepare to oversee the start of the multi-billion dollar carbon market on Jan. 1, 2012.

The idea of capping greenhouse gas emissions and providing cleaner companies with the potential to profit off their success in doing so is not new, but it has never been tried in the United States on this scale.

"This is by far the most ambitious program to reduce greenhouse gas emissions in North America, and by some measures the world," said Franz Litz, a senior fellow at the World Resources Institute.

California regulators are convinced they have the data and intelligence necessary to improve upon the system running in the European Union, which has shown results but has also experienced theft and fraud.

California officials say the market is a key part of implementing a six-year-old law that requires it to slash its emissions back to 1990 levels by 2020.

California also has the advantage of being a very large state - independent of the United States it would represent the world's eighth-largest economy.

It plans to launch its market in conjunction with the Canadian provinces of British Columbia and Quebec, and officials hope the market will one day draw in other U.S. states and perhaps even Europe.

So officials at the state's Air Resources Board (CARB) are confident it will have the liquidity necessary to reflect an accurate and predictable price.

Many businesses hoping to profit from the trading of carbon credits and major environmental groups agree with the state, saying the market will give power plants and factory operators the flexibility to decide how to reduce their output of the heat-trapping gases.

At the same time, they hope the market's incentives will ignite the ingenuity of the state's businesses, which will invent the clean energy technologies to be sold around the globe like so many Hollywood blockbusters.

But before any of that can happen, state regulators must overcome a series of challenges, with opponents striking from both the left and right of the political spectrum.

It is no surprise that climate change deniers believe any effort to limit carbon emissions is foolish.

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What is surprising is that the most serious legal challenge to the market so far has come from the left.

A group of "environmental justice" organizations banded together and successfully sued the state in March, saying regulators at CARB failed to adequately consider alternatives to a carbon market.

The state plans to appeal the ruling, and at this point few expect the case will amount to much more than a headache for the already overstretched state officials.

Still, the Superior Court judge's ruling worried many supporters.

"This case does not send a message other than that lawsuits can delay things," said Judi Greenwald, vice president of innovative solutions at the Pew Center on Global Climate Change.

That message might resonate with power companies in neighboring states such as Arizona and Nevada that send electricity across their borders into California and would thereby be subject to the regulations.

Peabody Energy, the world's largest private-sector coal company, said California's carbon market would "run afoul of the Commerce Clause of the United States Constitution" since it would amount to a tax between states.

Although no legal challenge has yet been filed on these grounds, most believe this is only a matter of time.

California officials have insisted they are on solid legal ground if such a case came to court.

The individual with the most power over whether the carbon market ever comes into being is Democratic Governor Jerry Brown, who has been uncharacteristically quiet on the issue so far.

CARB officials have said that if Brown wants to delay the start of the market for any reason, he will have the power to do so.

Brown has a decades-long track record as a strong advocate of renewable energy but has said little about carbon markets.

On April 18, he told reporters he was examining the issue "very seriously."

"Very soon I'll be letting you know where I think we can go on that subject," he said, referring to the carbon market.

Those eager for the market are less conflicted.

"Businesses in California accept that they are subject to a carbon-constrained future," said Josh Margolis, CEO of CantorCO2e, an environmental brokerage that promises to help businesses "turn a waste stream into a profit stream."

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